

**McCRACKEN COUNTY
BOARD OF EDUCATION**

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
With Independent Auditor's Reports**

YEAR ENDED JUNE 30, 2015

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School
District Audits
Members of the Board of Education
McCracken County Board of Education
Paducah, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the McCracken County Board of Education as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the McCracken County Board of Education's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District audits in *Kentucky Public School Districts' Audit Contract and Requirements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the McCracken County Board of Education as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, schedules of net pension liabilities and contributions on pages 4 through 8 and 41 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the McCracken County Board of Education's basic financial statements. The combining nonmajor fund financial statements and combining and individual school activity fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements, combining and individual school activity fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements, combining and individual school activity fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2015 on our consideration of the McCracken County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McCracken County Board of Education's internal control over financial reporting and compliance.

Kemper CPA Group, LLP

Certified Public Accountants and Consultants
Paducah, Kentucky
November 11, 2015

McCracken County Public School District—Paducah, Kentucky
Management’s Discussion and Analysis (MD&A)
Year Ended June 30, 2015

As management of the McCracken County School District, we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their statement No. 34 “Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments” issued in June 1999.

FINANCIAL HIGHLIGHTS

- The government-wide beginning cash and cash equivalents balance for the District on July 1, 2014, was \$22,665,697. The government-wide ending cash and cash equivalents balance for the District on June 30, 2015, was \$21,780,422.
- Interest income increased to a total of \$136,010 for all categories of funds. This is a 95% increase from last year due primarily to a change in depository institutions with double the interest rate and the fact that the district was no longer making investment withdrawals to pay for the McCracken County High School construction project.
- General Fund revenue accounted for \$52,140,691 in revenue, or 82% of all governmental revenues. Program specific revenues in the form of grants, construction, and other governmental units accounted for \$11,719,200, or 18% of total governmental revenues of \$63,859,891.
- The General Fund had \$52.1 million in revenue, which consisted primarily of the state program (SEEK), property, utility, and motor vehicle taxes. Excluding inter-fund transfers, there were \$52.8 million in General Fund expenditures. On-behalf payments by the State of Kentucky for retirement and benefits totaled over \$9.6 million for employees paid from the General Fund during FY2015. The General Fund revenues net of on-behalf payments were \$42.5 million and expenditures net of on-behalf payments were \$43.2 million.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District’s assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities.) The governmental activities of the District include instruction, support services, district and school administration, business and plant operations, student transportation, community service activities, and capital leases for vehicles. Taxes and intergovernmental revenues also support fixed assets and related short and long term debt.

The government-wide financial statements can be found on pages 9-10 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated accounting system including a chart of accounts for all Kentucky public school districts. All Kentucky public school districts utilize the Municipal Information System (MUNIS) accounting software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: 1) governmental, 2) proprietary, and 3) fiduciary funds. Proprietary funds are our food service and daycare operations. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare, and teacher support. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11-19 of this report.

Notes to the financial statements. The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 20-40 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, government-wide assets exceeded government-wide liabilities by \$49.5 million as of June 30, 2015.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment, and construction in progress) less any related outstanding debt used to acquire those assets. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending.

Although the District's investment in its capital assets is reported net of related debt, it should be noted the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

The following is a summary of the District's net position (in thousands of dollars):

Summary of District's net position (in thousands of dollars):

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>		<u>% Change</u>
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>14-15</u>
Current Assets	\$24,553	\$23,250	\$822	\$787	\$25,376	\$24,037	-5%
Noncurrent Assets	<u>108,912</u>	<u>108,578</u>	<u>330</u>	<u>271</u>	<u>109,242</u>	<u>108,850</u>	<u>0%</u>
Total Assets	133,466	131,828	1,152	1,058	134,618	132,887	-1%
Deferred Outflows of Resources	1,939	2,883	-	257	1,939	3,140	62%
Current Liabilities	6,128	7,225	13	10	6,141	7,235	18%
Noncurrent Liabilities	<u>70,238</u>	<u>75,856</u>	<u>-</u>	<u>2,164</u>	<u>70,238</u>	<u>78,020</u>	<u>11%</u>
Total Liabilities	76,366	83,081	13	2,174	76,379	85,255	12%
Deferred Inflows of Resources	-	1,016	-	242	-	1,258	N/A
Net Position							
Net investment in capital assets	35,174	37,982	330	271	35,504	38,253	8%
Restricted	8,333	6,354	-	-	8,333	6,354	-24%
Unrestricted	<u>15,531</u>	<u>6,278</u>	<u>809</u>	<u>(1,371)</u>	<u>16,341</u>	<u>4,907</u>	<u>-70%</u>
Total Net Position (Deficit)	<u>\$59,039</u>	<u>\$50,614</u>	<u>\$1,139</u>	<u>\$(1,100)</u>	<u>\$60,178</u>	<u>\$49,514</u>	<u>-18%</u>

Total net position decreased by 18% during the fiscal year due to the implementation of GASB Statement No. 68, which requires school districts to report the amount the Commonwealth of Kentucky provides toward the district employee pension plan. These amounts are not included in the FY2014 data. In FY2016, a more accurate comparison from one year to the next can be made.

The following is a summary of the District's change in net position (in thousands of dollars):

	Governmental Activities		Business-Type Activities		Total		% Change
	2014	2015	2014	2015	2014	2015	14-15
Revenues							
Program Revenues:							
Charges for Services	\$314	\$286	\$1,714	\$1,636	\$2,028	\$1,921	-5%
Operating grants and contributions	5,259	5,884	2,855	3,160	8,114	9,044	11%
Capital grants and contributions	2,673	1,869	-	-	2,673	1,869	-30%
General Revenues:							
Property taxes	16,586	17,195	-	-	16,586	17,195	4%
Vehicle taxes	1,789	1,781	-	-	1,789	1,781	0%
Other taxes	7,616	7,037	-	-	7,616	7,037	-8%
State sources	28,106	33,680	-	-	28,106	33,680	20%
Transfers and Other	<u>409</u>	<u>485</u>	<u>(66)</u>	<u>10</u>	<u>343</u>	<u>495</u>	<u>44%</u>
Total Revenues	62,753	68,218	4,503	4,806	67,255	73,024	9%
Expenses							
School operations	58,337	65,226	-	-	58,337	65,226	12%
School food services	-	-	4,250	4,188	4,250	4,188	-1%
School daycare	-	-	582	698	582	698	20%
Interest on debt	<u>3,538</u>	<u>2,327</u>	<u>-</u>	<u>-</u>	<u>3,538</u>	<u>2,327</u>	<u>-34%</u>
Total Expenses	61,874	67,553	4,832	4,887	66,706	72,440	9%
Increase in Net Position	\$879	\$665	\$(329)	\$(80)	\$550	\$584	6%

Revenues in governmental funds increased by nearly \$5.5 million from the prior year. This is primarily due to the reporting of on-behalf payments in the government-wide statements. The fund statements reflect \$9.6 million for on-behalf payments, but the government-wide statements reflect an additional \$4.6 million for the Kentucky Teachers Retirement System (KTRS) pension expense in accordance with GASB No. 68. The remaining nearly \$1 million in additional revenues comes from an increase in state grants.

COMMENTS ON BUDGET COMPARISONS

- The District's total General Fund revenues for the fiscal year ended June 30, 2015, were \$52.1 million compared with budgeted revenues of \$40.2 million (net of beginning balance and fund transfers.)
- General Fund final budget compared to actual revenue varied from line item to line item with the ending actual balance being almost \$12 million more than budget (favorable) primarily due to the recording of \$9.6 million in actual on-behalf payments from the state, which were not budgeted due to Kentucky Department of Education recommendations. The remaining favorable variance of \$2.3 million is predominantly from an unexpected favorable variance in revenues in local tax payments and revenue in lieu of taxes.
- The total cost of all programs and services to the General Fund was \$52.8 million including capital leases for the bus fleet, compared with budgeted expenses of \$55.5 million (net of fund transfers.) General Fund

budget expenditures compared to actual expenditures varied by \$2.7 million (favorable), which was primarily due to savings in fuel and transportation costs and in a reduction of district administration costs for facilities.

- On-behalf payments include payments made by the Commonwealth of Kentucky for teacher retirements and health and life insurance benefits. In fiscal year ending June 30, 2015, these amounts for the General Fund totaled \$9,628,116. Payments by the Kentucky Department of Education (KDE) for technology network support on behalf of the district were \$93,279. These amounts were reflected as both actual fund revenues and actual fund expenditures, but not budgeted as fund revenues and expenditures, as recommended by KDE.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Net investment in capital assets, decreased by nearly \$400 thousand, or .4%, due to depreciation exceeding current year asset additions.

COMMITMENT AND RESTRICTION OF FUND BALANCES

With the implementation of GASB Statement No. 54 standards, the District is allowed to restrict a portion of the fund balance within the General Fund as legislation permits or to commit funds for a future purpose through Board action. These funds cannot be reclassified as unassigned without further Board action.

- Pursuant to Kentucky Revised Statute 161.155, up to 50% of the District's total sick leave liability for the current year may be escrowed to maintain funds necessary to pay employees who qualify for receipt of the benefit. The District restricted \$567,567 as of June 30, 2015, for this purpose.
- The Board took action on June 18, 2015, to allow Site Based Decision Making Councils to carry forward remaining funds from the FY15 allocation into FY16. This amount was \$74,538.
- The Board took action on June 18, 2015, to commit \$10,000 of the General Fund balance to future construction and related expenses.

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1 through June 30; other programs (i.e. federal dollars) operate on a different fiscal calendar, but they are reflected in the district overall budget. By law, the working budget must have a minimum 2% contingency. The District adopted this budget with a contingency that exceeded the minimum state requirement.

Questions regarding this report should be directed to:

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MCCRACKEN COUNTY BOARD OF EDUCATION
STATEMENT OF NET POSITION
GOVERNMENT WIDE
As of June 30, 2015

ASSETS	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current Assets			
Cash and cash equivalents	\$ 21,181,849	\$ 598,573	\$ 21,780,422
Receivables	2,068,272	46,886	2,115,158
Inventory	-	141,779	141,779
Total current assets	<u>23,250,121</u>	<u>787,238</u>	<u>24,037,359</u>
Noncurrent Assets			
Capital assets			
Nondepreciable	5,153,724	-	5,153,724
Depreciable, net of accumulated depreciation	103,424,635	271,212	103,695,847
Total noncurrent assets	<u>108,578,359</u>	<u>271,212</u>	<u>108,849,571</u>
Total assets	<u>131,828,480</u>	<u>1,058,450</u>	<u>132,886,930</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension contributions	1,179,449	257,321	1,436,770
Deferred charge on refunding	1,703,621	-	1,703,621
Total deferred outflows of resources	<u>2,883,070</u>	<u>257,321</u>	<u>3,140,391</u>
LIABILITIES			
Current Liabilities			
Accounts payable	1,206,393	10,413	1,216,806
Accrued interest payable	322,394	-	322,394
Current portion of accrued sick leave	335,403	-	335,403
Current portion of bond obligations	3,779,006	-	3,779,006
Current portion of capital leases	452,960	-	452,960
Unearned revenue	1,128,564	-	1,128,564
Total current liabilities	<u>7,224,720</u>	<u>10,413</u>	<u>7,235,133</u>
Noncurrent Liabilities			
Pension obligations	9,107,565	2,163,834	11,271,399
KSBIT Assessment	70,020	-	70,020
Noncurrent portion of bond obligations	63,896,975	-	63,896,975
Noncurrent portion of capital leases	1,981,620	-	1,981,620
Noncurrent portion of accrued sick leave	799,731	-	799,731
Total noncurrent liabilities	<u>75,855,911</u>	<u>2,163,834</u>	<u>78,019,745</u>
Total liabilities	<u>83,080,631</u>	<u>2,174,247</u>	<u>85,254,878</u>
DEFERRED INFLOWS OF RESOURCES			
Difference between projected and actuarial earnings on pension plan investments	1,016,625	241,536	1,258,161
Total deferred inflows of resources	<u>1,016,625</u>	<u>241,536</u>	<u>1,258,161</u>
NET POSITION			
Net invested in capital assets	37,981,603	271,212	38,252,815
Restricted for:			
KSFCC - Debt Service	5,568,617	-	5,568,617
Capital projects	218,391	-	218,391
Other purposes	567,567	-	567,567
Unrestricted (deficit)	6,278,116	(1,371,224)	4,906,892
Total net position (deficit)	<u>\$ 50,614,294</u>	<u>\$ (1,100,012)</u>	<u>\$ 49,514,282</u>

The notes to the financial statements are an integral part of this statement.

MCCRACKEN COUNTY BOARD OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2015

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Outlay Fund</u>
ASSETS			
Cash and cash equivalents	\$ 13,723,172	\$ 1,185,475	\$ -
Other receivables	1,143,280	924,993	-
Investments	-	-	-
Due from other funds	892,235	-	-
Total assets	<u>\$ 15,758,687</u>	<u>\$ 2,110,468</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 616,526	\$ 89,669	\$ -
Due to other funds	-	892,235	-
Unearned revenue	-	1,128,564	-
Total liabilities	<u>616,526</u>	<u>2,110,468</u>	<u>-</u>
Fund Balances			
Restricted:			
Sick leave payable	567,567	-	-
KSFCC Debt Service	-	-	-
Capital Projects	-	-	-
Committed:			
Site based carry forward	74,538	-	-
Future construction projects	10,000	-	-
Assigned	185,438	-	-
Unassigned	14,304,618	-	-
Total fund balances	<u>15,142,161</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 15,758,687</u>	<u>\$ 2,110,468</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

Construction Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
\$ 704,586	\$ 5,568,617	\$ -	\$ 21,181,850
-	-	-	2,068,273
-	-	-	-
-	-	-	892,235
<u>704,586</u>	<u>\$ 5,568,617</u>	<u>\$ -</u>	<u>\$ 24,142,358</u>
\$ 486,195	\$ -	\$ -	\$ 1,192,390
-	-	-	892,235
-	-	-	1,128,564
<u>486,195</u>	<u>-</u>	<u>-</u>	<u>3,213,189</u>
-	-	-	567,567
-	5,568,617	-	5,568,617
218,391	-	-	218,391
-	-	-	74,538
-	-	-	10,000
-	-	-	185,438
-	-	-	14,304,618
<u>218,391</u>	<u>5,568,617</u>	<u>-</u>	<u>20,929,169</u>
<u>\$ 704,586</u>	<u>\$ 5,568,617</u>	<u>\$ -</u>	<u>\$ 24,142,358</u>

**MCCRACKEN COUNTY BOARD OF EDUCATION
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
As of June 30, 2015**

Total fund balances per fund financial statements	\$ 20,929,169
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	108,578,359
Certain assets are not reported in this fund financial statements because they are not available to pay current-period expenditures, but they are reported in the statement of net assets.	2,883,070
Certain liabilities (such as bonds and leases payable, accrued payables, deferred inflows, unfunded pension obligations, sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable with current resources, but they are presented in the statement of net position.	<u>(81,776,304)</u>
Net position for governmental activities	<u><u>\$ 50,614,294</u></u>

The notes to the financial statements are an integral part of this statement.

MCCRACKEN COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

Revenues	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Outlay Fund</u>
From local sources			
Property taxes	\$ 13,291,246	\$ -	\$ -
Motor vehicle taxes	1,781,059	-	-
Utility taxes	3,150,262	-	-
Other taxes	406,243	-	-
Tuition and fees	109,430	-	-
Earnings on investments	92,651	693	10,125
Other local revenues	150,231	181,499	-
State sources			
SEEK	19,589,632	-	618,372
On-behalf payments	9,628,116	-	-
Other	-	1,701,309	-
Federal - indirect	270,079	4,022,833	-
Revenue in lieu of taxes	3,480,836	-	-
Other revenues	190,906	-	-
Total revenues	<u>52,140,691</u>	<u>5,906,334</u>	<u>628,497</u>
Expenditures			
Instruction	32,109,643	5,109,801	-
Support services			
Student	2,124,679	12,701	-
Instruction staff	1,482,655	259,091	-
District administration	2,010,467	-	-
School administration	2,857,005	-	-
Business and central office	1,797,060	33,071	-
Plant operation and maintenance	6,454,123	50,197	-
Student transportation	3,479,728	-	-
Facilities acquisition and construction	-	1,100	-
Community service activities	-	422,851	-
Debt service	506,904	-	-
Total expenditures	<u>52,822,264</u>	<u>5,888,812</u>	<u>-</u>
Excess (deficit) of revenues over expenditures	<u>(681,573)</u>	<u>17,522</u>	<u>628,497</u>
Other Financing Sources (Uses)			
Proceeds from debt issues	555,028	-	-
Operating transfers in	171,626	148,409	-
Operating transfers out	(415,884)	(165,931)	(2,432,329)
Total other financing sources (uses)	<u>310,770</u>	<u>(17,522)</u>	<u>(2,432,329)</u>
Net change in fund balances	(370,803)	-	(1,803,832)
Fund balance, July 1, 2014	<u>15,512,964</u>	<u>-</u>	<u>1,803,832</u>
Fund balance, June 30, 2015	<u>\$ 15,142,161</u>	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

Construction Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 3,904,084	\$ -	\$ 17,195,330
-	-	-	1,781,059
-	-	-	3,150,262
-	-	-	406,243
-	-	-	109,430
5,646	23,832	-	132,947
-	-	-	331,730
-	727,518	-	20,935,522
-	-	523,289	10,151,405
-	-	-	1,701,309
-	-	-	4,292,912
-	-	-	3,480,836
-	-	-	190,906
<u>5,646</u>	<u>4,655,434</u>	<u>523,289</u>	<u>63,859,891</u>
-	-	-	37,219,444
-	-	-	2,137,380
-	-	-	1,741,746
-	-	-	2,010,467
-	-	-	2,857,005
-	-	-	1,830,131
-	-	-	6,504,320
-	-	-	3,479,728
2,396,115	-	-	2,397,215
-	-	-	422,851
-	-	5,719,137	6,226,041
<u>2,396,115</u>	<u>-</u>	<u>5,719,137</u>	<u>66,826,328</u>
<u>(2,390,469)</u>	<u>4,655,434</u>	<u>(5,195,848)</u>	<u>(2,966,437)</u>
-	-	-	555,028
2,482,405	-	5,195,848	7,998,288
-	(4,978,448)	-	(7,992,592)
<u>2,482,405</u>	<u>(4,978,448)</u>	<u>5,195,848</u>	<u>560,724</u>
91,936	(323,014)	-	(2,405,713)
<u>126,455</u>	<u>5,891,631</u>	<u>-</u>	<u>23,334,882</u>
<u>\$ 218,391</u>	<u>\$ 5,568,617</u>	<u>\$ -</u>	<u>\$ 20,929,169</u>

MCCRACKEN COUNTY BOARD OF EDUCATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

Net change in total fund balances per fund financial statements	\$ (2,405,713)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of net position and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense of \$4,054,756 exceeds capital outlays of \$3,720,796 for the year.	(333,960)
In the statement of activities, only the loss on the disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of capital assets disposed.	(63)
The proceeds for the issuance of debt provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net position.	(555,028)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.	3,956,504
Governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts are as follows:	
Amorization of bond discounts & refunding costs	\$ (264,035)
Amorization of bond premiums	188,886
	(75,149)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	77,955
Change in net position per statement of activities	\$ 664,546

The notes to the financial statements are an integral part of this statement.

MCCRACKEN COUNTY BOARD OF EDUCATION
STATEMENT OF NET POSITION -
PROPRIETARY FUNDS
As of June 30, 2015

ASSETS	<u>Food Service Fund</u>	<u>Day Care Fund</u>	<u>Total</u>
Current Assets			
Cash and cash equivalents	\$ 262,686	\$ 335,887	\$ 598,573
Other receivables	25,276	21,610	46,886
Inventory	141,779	-	141,779
Total current assets	<u>429,741</u>	<u>357,497</u>	<u>787,238</u>
Noncurrent Assets			
Capital assets, net of accumulated depreciation	244,116	27,096	271,212
Total noncurrent assets	<u>244,116</u>	<u>27,096</u>	<u>271,212</u>
Total assets	<u>673,857</u>	<u>384,593</u>	<u>1,058,450</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension contributions	213,888	43,433	257,321
Total deferred outflows of resources	<u>213,888</u>	<u>43,433</u>	<u>257,321</u>
LIABILITIES			
Current Liabilities			
Accounts payable	1,414	8,999	10,413
Total current liabilities	<u>1,414</u>	<u>8,999</u>	<u>10,413</u>
Total liabilities	<u>1,414</u>	<u>8,999</u>	<u>10,413</u>
Noncurrent Liabilities			
Pension obligations	1,781,610	382,224	2,163,834
Total noncurrent liabilities	<u>1,781,610</u>	<u>382,224</u>	<u>2,163,834</u>
Total liabilities	<u>1,783,024</u>	<u>391,223</u>	<u>2,174,247</u>
DEFERRED INFLOWS OF RESOURCES			
Difference between projected and actual earnings on pension plan investments	198,871	42,665	241,536
Total deferred inflows of resources	<u>198,871</u>	<u>42,665</u>	<u>241,536</u>
NET POSITION			
Net invested in capital assets	244,116	27,096	271,212
Unrestricted (deficit)	<u>(1,338,266)</u>	<u>(32,958)</u>	<u>(1,371,224)</u>
Total net position (deficit)	<u>\$ (1,094,150)</u>	<u>\$ (5,862)</u>	<u>\$ (1,100,012)</u>

The notes to the financial statements are an integral part of this statement.

MCCRACKEN COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	Food Service Fund	Day Care Fund	Total
Operating Revenues			
Food service sales	\$ 1,108,705	\$ -	\$ 1,108,705
Community service activities	-	504,872	504,872
Other operating revenues	35,137	150	35,287
Total operating revenues	<u>1,143,842</u>	<u>505,022</u>	<u>1,648,864</u>
Operating Expenses			
Salaries and wages	1,996,966	508,614	2,505,580
Professional and contract services	44,149	41,067	85,216
Supplies and materials	1,905,219	92,471	1,997,690
Depreciation	60,164	3,810	63,974
Other operating expenses	3,791	6,004	9,795
Total operating expenses	<u>4,010,289</u>	<u>651,966</u>	<u>4,662,255</u>
Operating income (loss)	<u>(2,866,447)</u>	<u>(146,944)</u>	<u>(3,013,391)</u>
Nonoperating revenues (expenses)			
Federal grants	2,165,923	-	2,165,923
Donated commodities	231,555	-	231,555
State grants	36,866	10,169	47,035
On-behalf state contributions	389,713	101,692	491,405
Interest income	1,357	1,706	3,063
Total nonoperating revenues (expenses)	<u>2,825,414</u>	<u>113,567</u>	<u>2,938,981</u>
Income (loss) before capital contributions and transfers	<u>(41,033)</u>	<u>(33,377)</u>	<u>(74,410)</u>
Transfers out	(5,696)	-	(5,696)
Change in net position (deficit)	(46,729)	(33,377)	(80,106)
Total net position (deficit) as restated, July 1, 2014	<u>(1,047,421)</u>	<u>27,515</u>	<u>(1,019,906)</u>
Total net position (deficit), June 30, 2015	<u>\$ (1,094,150)</u>	<u>\$ (5,862)</u>	<u>\$ (1,100,012)</u>

The notes to the financial statements are an integral part of this statement.

MCCRACKEN COUNTY BOARD OF EDUCATION
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	Food Service Fund	Day Care Fund	Total
Cash Flows from Operating Activities			
Cash received from lunchroom sales	\$ 1,104,971	\$ -	\$ 1,104,971
Cash received from user charges	-	485,870	485,870
Cash received from other activities	35,137	150	35,287
Cash payments to employees for services	(1,618,610)	(406,905)	(2,025,515)
Cash payments to suppliers for goods and services	(1,698,087)	(131,215)	(1,829,302)
Cash payments for other operating activities	(3,791)	(6,004)	(9,795)
Net cash used for operating activities	<u>(2,180,380)</u>	<u>(58,104)</u>	<u>(2,238,484)</u>
Cash Flows from Capital Financing Activities			
Acquisition of capital assets	(1,977)	(3,199)	(5,176)
Net cash used for capital financing activities	<u>(1,977)</u>	<u>(3,199)</u>	<u>(5,176)</u>
Cash Flows from Noncapital Financing Activities			
Cash received from government grants	2,210,164	10,169	2,220,333
Transfer to other funds	(5,696)	-	(5,696)
Net cash provided by noncapital financing activities	<u>2,204,468</u>	<u>10,169</u>	<u>2,214,637</u>
Cash Flows from Investing Activities			
Interest on investments	1,357	1,706	3,063
Net cash flows provided by investing activities	<u>1,357</u>	<u>1,706</u>	<u>3,063</u>
Net increase (decrease) in cash and cash equivalents	23,468	(49,428)	(25,960)
Cash and cash equivalents - beginning	239,218	385,315	624,533
Cash and cash equivalents - ending	<u>\$ 262,686</u>	<u>\$ 335,887</u>	<u>\$ 598,573</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	\$ (2,866,447)	\$ (146,944)	\$ (3,013,391)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation	60,164	3,810	63,974
Donated commodities & on-behalf state contributions	621,268	101,692	722,960
Changes in assets and liabilities:			
Receivables	(3,734)	(19,002)	(22,736)
Inventory	24,576	-	24,576
Accounts payable	(4,850)	2,323	(2,527)
Accrued pension liabilities and related deferred inflows and outflows	(11,357)	17	
Net Cash Used for Operating Activities	<u>\$ (2,180,380)</u>	<u>\$ (58,104)</u>	<u>\$ (2,238,484)</u>
Schedule of non-cash transactions:			
Donated commodities and on-behalf state contributions	\$ 621,268	\$ 101,692	\$ 722,960
	<u>\$ 621,268</u>	<u>\$ 101,692</u>	<u>\$ 722,960</u>

The notes to the financial statements are an integral part of this statement.

MCCRACKEN COUNTY BOARD OF EDUCATION
STATEMENT OF NET POSITION -
FIDUCIARY FUNDS
As of June 30, 2015

	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 19,897	\$ 824,525
Accounts receivable	56,396	8,599
Total current assets	<u>76,293</u>	<u>833,124</u>
LIABILITIES		
Accounts payable	815	35,403
Due to student groups	-	797,721
Total liabilities	<u>815</u>	<u>833,124</u>
NET POSITION		
Net position held in trust	<u>\$ 75,478</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

MCCRACKEN COUNTY BOARD OF EDUCATION
STATEMENT OF CHANGES IN NET POSITION -
FIDUCIARY FUNDS
For the Year Ended June 30, 2015

	Private Purpose Trust Fund
Additions	
Net interest and investment gains (losses)	\$ 1,886
Total additions	1,886
Deductions	
Benefits paid and other deductions	11,453
Total deductions	11,453
Change in net position	(9,567)
Net position - beginning	85,045
Net position - ending	\$ 75,478

The notes to the financial statements are an integral part of this statement.

**McCRACKEN COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE A - ENTITY

Reporting Entity

The McCracken County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of McCracken County, Kentucky. The Board receives funding from local, state, and federal government sources and must comply with the commitment requirement of these funding source entities.

The accompanying financial statements present the Board's primary government and the component unit discussed below for which the Board exercises significant influence or financial accountability. Significant influence or financial accountability is based primarily on financial relationships with the Board (as distinct from legal relationships). Therefore, the financial statements presented herein do not include funds of certain legally separate groups and organizations associated with the school system, such as Booster Clubs, over which the Board does not exercise significant influence or financial accountability.

Blended Component Unit:

McCracken County School Board Finance Corporation – In 1981, the McCracken County, Kentucky, Board of Education resolved to authorize the establishment of the McCracken County School Board Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the McCracken County Board of Education also comprise the Corporation's Board of Directors. The financial transactions of this entity are included in the accounts and records of the McCracken County Board of Education.

There are no audited financial statements issued separately for this component unit.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the McCracken County Board of Education substantially comply with the rules prescribed by the Kentucky Department of Education for local school boards. The financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units.

Basis of Presentation

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the Board as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Board that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**McCRACKEN COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Board and for each function or program of the Board's governmental activities. Direct expenses are those specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the Board, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Board.

Fund Financial Statements – Fund financial statements report detailed information about the Board. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports changes in net total position. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the Board finances and meets the cash flow needs of its proprietary activities.

Fund Accounting

The Board maintains its accounting records in accordance with the principles of “fund” accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts which stands separate from the activities reported in other funds. A description for each class of funds, along with the associated restrictions, follows:

a. **Major Governmental Fund Types**

The *General Fund* is the primary operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use.

The *Special Revenue Fund* accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes financial programs where unused balances may be required to be returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report.

The Support Education Excellence in Kentucky (SEEK) *Capital Outlay Fund* receives those funds designated by the State as Capital Outlay Funds (unless authorized for retention in the General Fund) and is restricted for use in financing projects identified in the Board's facility plan.

The Facility Support Program of Kentucky (FSPK) *Building Fund* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the Board's facility plan.

**McCRACKEN COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Accounting (continued)

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by proprietary funds).

1. The *Construction Fund* is a Capital Project Fund that accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

b. Non-major Governmental Fund Types

The *Debt Service Fund* is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

c. Proprietary Funds (Enterprise Funds)

The *School Food Service Fund* is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA.

Other enterprise funds consist of Day Care and similar operations used to account for before and after school day care services.

d. Fiduciary Fund Types

Fiduciary Funds account for assets held by the Board in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the Board under terms of a formal trust agreement.

The *Private Purpose Trust Fund* is accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. The expendable trust fund of the Board is the High School Trust which accounts for donations made for future scholarships where both principal and interest may be spent.

The *Agency Funds* account for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental fund financial statements use the modified accrual basis of accounting. Proprietary and fiduciary fund financial statements also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Board, available means expected to be received within sixty days of the fiscal year-end.

**McCRACKEN COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-exchange transactions, in which the Board receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Board must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Board on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before they can be recognized.

Unearned Revenue – Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility and expenditure requirements are met are recorded as unearned revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in the governmental fund statements.

Property Taxes

Property taxes are levied each October on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual due date is based on a period ending thirty days after the tax bill mailing. Property taxes collected are recorded as revenues in the fund for which they are levied. All taxes collected are initially recorded in the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2015, to finance General Fund operations were \$.504 per \$100 valuation for real property, \$.504 per \$100 valuation for business personal property and \$.529 per \$100 valuation for motor vehicles.

The Board also levies a gross receipts license tax in the amount of 3% of the gross receipts derived from provision within the county of various telephonic, telegraphic and satellite communication services, electric power, water, and natural, artificial and mixed gases.

Board property tax revenues are recognized when levied to the extent that they result in current receivables.

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances at year end are re-appropriated in the next year. An assignment of fund balance equal to outstanding encumbrances at year end is provided at June 30, 2015.

Cash and Cash Equivalents

The Board considers demand deposits, money market funds, and other investments with a maturity of 90 days or less, to be cash equivalents.

**McCRACKEN COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

Accounts receivable consist of various taxes, grants and other sources of revenues that are measurable and receipt is certain. Accounts receivable as of June 30, 2015 consist of the following:

<u>Description</u>	<u>General Fund</u>	<u>Special Revenue</u>	<u>Food Service</u>	<u>Day Care</u>	<u>Total</u>
Taxes:					
Property – current	\$ 436,723	\$ -	\$ -	\$ -	\$ 436,723
Property– delinquent	34,392	-	-	-	34,392
Utilities	478,342	-	-	-	478,342
State grants	88,180	82,658	-	1,306	172,144
Federal grants	17,410	842,335	21,542	-	881,287
Other	<u>88,233</u>	<u>-</u>	<u>3,734</u>	<u>20,304</u>	<u>112,271</u>
Total	<u>\$ 1,143,280</u>	<u>\$ 924,993</u>	<u>\$ 25,276</u>	<u>\$ 21,610</u>	<u>\$2,115,159</u>

Inventories

Supplies and materials are charged to expenditures when purchased with the exception of the proprietary fund which records inventory using the accrual basis of accounting. On the government wide and fund financial statements, inventory is stated at cost.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective proprietary funds.

All capital assets are capitalized at cost or estimated historical cost and updated for additions and retirements during the year. Capital assets donated are recorded at their fair market values at the date received. The Board currently follows the guidelines regarding capital assets as established by the Kentucky Department of Education. Assets with an economic life greater than one year and cost threshold of one thousand dollars are capitalized except for computers, digital cameras, and real property for which there is no threshold. The Board does not possess any infrastructure. Improvements adding value and economical life to an asset are capitalized. Normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives for both governmental and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Building and improvements	25-50 years
Land improvements	20 years
Technology equipment	5-15 years
Vehicles	5-10 years
Food service equipment	10-12 years
Furniture and fixtures	7-20 years
Other general assets	10 years

**McCRACKEN COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments are recorded at fair value determined by reference to published market data for publicly traded securities. The net increase in fair value of investments consists of the realized gains and losses and the unrealized increase or decrease in fair value of investments during the year. Realized gains or losses in sales of investments that had been held in more than one fiscal year and sold in the current fiscal year were included as a change in the fair value of investments reported in the prior year(s) and the current year. Unrealized increase or decrease is computed based on changes in the fair value of investments between years. Security transactions are accounted for on a trade date basis. Interest income is recognized when earned and includes amortization of discounts and premiums on interest-bearing instruments that were purchased at a discount or premium.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2015 are recorded as prepaid items. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents the consumption of net position that applies to a future period(s) and therefore will not be recognized as an outflow of resources (expense/expenditure) until then. The Board has two items that qualifies for reporting in the category. These are deferred charge on refunding and deferred pension contributions reported in the statements of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred pension contribution results from pension contributions subsequent to the measurement date of the pension plan. This amount is deferred and recognized as a component of the change in pension plan liability in the next measurement period.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Board has only one type of item related to the Board's participation in the County Employee Retirement System pension plan that qualifies for reporting in this category. The item, difference between projected and actuarial earnings on pension plan investments, is deferred and amortized over 5 years in future periods as a component of the pension expense. A summary of change in deferred outflows/inflows of resources is as follows:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2015</u>
<i>Deferred charge on refunding</i>				
Governmental Activities	\$ 1,938,762	\$ -	\$ (235,141)	\$ 1,703,621
<i>Deferred pension contributions</i>				
Governmental Activities	\$ 1,216,541	\$ 1,179,449	\$ (1,216,541)	\$ 1,179,449
Business-Type Activities	\$ 289,034	\$ 257,321	\$ (289,034)	\$ 257,321
<i>Deferred difference between Projected and actuarial earning</i>				
Governmental Activities	\$ -	\$ 1,016,625	\$ -	\$ 1,016,625
Business-Type Activities	\$ -	\$ 241,536	\$ -	\$ 241,536

**McCRACKEN COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the Board an amount equal to 30% of the value of accumulated vested sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the Board's past experience of making termination payments.

The estimated entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the accrued sick leave payable is the amount earned by retired employees unpaid as of year-end expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from current governmental funds are reported on the governmental fund financial statements. However, claims and judgments, the non-current portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance

Fund balances are reported pursuant to GASB Statement 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*", which defines how fund balances of the governmental funds, are presented in the financial statements. Fund balances are classified as follows:

Nonspendable fund balances are amounts that cannot be spent either because they are not in spendable form (such as inventory) or because they are legally or contractually required to be maintained intact.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed fund balances are those amounts that can only be used for specific purposes (such as future construction projects) pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of fund balance commitment.

Assigned fund balances are those amounts that are constrained by the government's intent to be used for specific purpose (such as encumbrances), but are neither restricted nor committed. Assigned fund balances also include 1) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted or committed and 2) amounts in the general fund that are intended to be used for a specific purpose.

**McCRACKEN COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

Unassigned fund balances are the residual classification for the general fund. This classification represents fund balances that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Revenues and Expenses

Operating revenues are those revenues generated directly from the primary activity of the proprietary funds. For the Board, operating revenues, within the School Food Service Fund, are primarily charges for student lunches and non-operating revenues are primarily reimbursements from federal and state agencies for meals provided by the various schools while the other enterprise fund's operating revenues are primarily charges for daycare services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Interfund Activity

Each fund is a fiscal and accounting entity. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds.

Interfund receivables and payables for the Board arise generally when payments are made from a fund that does not have the legal liability for the expenditure, thus a payable from the fund having the legal liability is established at such time. For the year ended June 30, 2015, interfund receivables/payables consist of reimbursements of \$892,235 due to the general fund for special revenue project expenditures. All interfund receivables and payables have been eliminated on the District-wide statement of net position.

Budgetary Process

Budgetary Basis of Accounting: The budgetary process accounts for transactions on the same basis as the fund financial statements.

The budgetary process begins in October for the next fiscal year. As of May 30, a tentative working budget is submitted to each Board member for discussion and amendment. The Board must adopt a final budget and submit to the Kentucky Department of Education by September 30 of each fiscal year. Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end.

**McCRACKEN COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and Teachers Retirement System of the State of Kentucky ("KTRS") and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Subsequent Events

Management has evaluated subsequent events through November 11, 2015 the date which the financial statements were available to be issued.

NOTE C – DEPOSITS AND INVESTMENTS

Custodial credit risk for deposits and investments is the risk that in the event of a failure of the counterparty, the Board's deposits and investments may not be returned or the Board will not be able to recover collateral securities in the possession of an outside party. The Board's investment policy requires all investments be made in accordance with applicable legal requirements with consideration of investment safety.

Deposits are 100% secured with collateral valued at market or par, whichever is lower. However, some agency fund accounts are maintained at other financial institutions due to various Board locations in the County, and at times, demand deposits exceed depository insurance at these locations. The Board has incurred no losses in the past as a result of bank balances in excess of FDIC insurance coverage.

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the Board's investing activities are managed under the custody of the Board's Finance Director. Investing is performed in accordance with investment policies adopted by the Board of Directors.

In accordance with State statutes and the Board's investment policy, the Board may invest funds temporarily in excess of operating needs in the following:

1. Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements.
2. Obligations of any corporation of the United States government.
3. Certificates of deposit or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligations permitted by KRS 41.241(4).
4. Bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and instrumentalities.
5. Uncollateralized certificates of deposits issued by any bank or savings and loan institution, bankers' acceptances for banks, or securities issued by a state or local government or any instrumentality of agency thereof, in the United States rated in one of the three highest categories by a nationally recognized rating agency.
6. Commercial paper rated in the highest category by a nationally recognized rating agency.
7. Shares of mutual funds as permitted by KRS 66.480.

It is the Board's policy not to purchase any investment on a margin basis or through the use of any similar leveraging technique. In addition, the amount of funds the Board may invest at any time in categories 4, 5, 6, and 7 shall not exceed twenty percent (20%) of the total funds invested.

**McCRACKEN COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE C – DEPOSITS AND INVESTMENTS (Continued)

At June 30, 2015, the Board’s deposits were in commercial bank demand deposit accounts. At year end, the carrying amount and the bank balance of the Board’s cash and cash equivalents was \$22,624,844 and \$24,940,069, respectively. As of June 30, 2015, the Board’s bank balance was as follows:

<i>Governmental & Proprietary Funds</i>	
Balance covered by FDIC insurance	\$ 24,054,498
Collateral held by pledging financial institutions’ trust department not in the Board’s name	-
<i>Fiduciary Funds</i>	
Balance covered by FDIC insurance	885,571
Collateral held by pledging financial institutions’ trust department not in the Board’s name	-
Uncollateralized	-
Total	<u>\$ 24,940,069</u>

NOTE D – CAPITAL ASSETS

A summary of the capital asset activity for the fiscal year ended at June 30, 2015, was as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2015</u>
<u>Capital assets, not being depreciated:</u>				
Land	\$ 2,620,874	\$ 175,421	\$ -	\$ 2,796,295
Construction in Progress	<u>83,981</u>	<u>2,505,850</u>	<u>(232,402)</u>	<u>2,357,429</u>
Total capital assets, not being depreciated:	<u>2,704,855</u>	<u>2,681,271</u>	<u>(232,402)</u>	<u>5,153,724</u>
<u>Capital assets, being depreciated:</u>				
Land improvements	8,852,519	-	-	8,852,519
Buildings and improvements	120,179,554	232,402	-	120,411,956
Technology equipment	6,385,090	368,930	(25,910)	6,728,110
Vehicles	7,515,133	567,226	-	8,082,359
General Equipment	<u>5,081,324</u>	<u>103,369</u>	<u>(1,234)</u>	<u>5,183,459</u>
Totals at historical cost	<u>148,013,620</u>	<u>1,271,927</u>	<u>(27,144)</u>	<u>149,258,403</u>
Less: Accumulated depreciation				
Land improvements	2,332,415	355,970	-	2,688,385
Buildings and improvements	27,210,089	2,433,520	-	29,643,609
Technology equipment	5,746,435	330,706	(25,847)	6,051,294
Vehicles	5,173,185	485,155	-	5,658,340
General Equipment	<u>1,343,969</u>	<u>449,405</u>	<u>(1,234)</u>	<u>1,792,140</u>
Total accumulated depreciation	<u>41,806,093</u>	<u>4,054,756</u>	<u>(27,081)</u>	<u>45,833,768</u>
Total capital assets, being depreciated, net:	<u>106,207,527</u>	<u>(2,782,829)</u>	<u>\$ (63)</u>	<u>103,424,635</u>
Governmental Activities Capital Assets – Net	<u>\$ 108,912,382</u>	<u>\$ (101,558)</u>	<u>\$ (232,465)</u>	<u>\$ 108,578,359</u>

**McCRACKEN COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE D – CAPITAL ASSETS (Continued)

<u>Business-Type Activities</u>	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2015</u>
Food Service:				
Food service and equipment	\$ 1,391,204	\$ -	\$ -	\$ 1,391,204
Technology equipment	63,394	1,977	-	65,371
Daycare Service:				
Land improvements	29,080	-	-	29,080
Technology equipment	25,620	3,199	-	28,819
General equipment	21,919	-	-	21,919
Totals at historical cost	<u>1,531,217</u>	<u>5,176</u>	<u>-</u>	<u>1,536,393</u>
Less: Accumulated depreciation				
Food Service:				
Food service and equipment	1,094,609	57,208	-	1,151,817
Technology equipment	57,687	2,956	-	60,643
Daycare Service:				
Land improvements	13,207	1,454	-	14,661
Technology equipment	25,075	708	-	25,783
General equipment	10,629	1,648	-	12,277
Total accumulated depreciation	<u>1,201,207</u>	<u>63,974</u>	<u>-</u>	<u>1,265,181</u>
Business-Type Activities Capital Assets – Net	<u>\$ 330,010</u>	<u>\$ (58,798)</u>	<u>\$ -</u>	<u>\$ 271,212</u>

NOTE E – DEPRECIATION AND AMORTIZATION

Depreciation expense, by function, was as follows:

Instructional	\$ 2,809,479
Student	259,855
Instructional staff	22,415
District administration	42,820
School administration	12,916
Business and central office	1,447
Plant operation and maintenance	496,243
Student transportation	409,581
	<u>\$ 4,054,756</u>
Food Service	\$ 60,164
Daycare Service	3,810
	<u>\$ 63,974</u>

NOTE F – BOND OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the Board's future obligations to make payments relating to the bonds issued by the McCracken County School Board Finance Corporation.

Bonds

The Board, through the General Fund, the SEEK Capital Outlay Fund, and the Facility Support Program Levy Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the McCracken County School Board Finance corporation to construct school facilities.

The bond issues provide for a statutory mortgage lien on the school buildings and appurtenances in favor of the holders of the bonds and coupons.

**McCRACKEN COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE F – BOND OBLIGATIONS (continued)

The original amount of each issue, the issue date, outstanding balance, and interest rates are summarized below:

<u>Issue Date</u>	<u>Original Amount/ Proceeds</u>	<u>Outstanding Balance</u>	<u>Rates</u>
October, 2004	\$ 3,345,000	\$ 505,000	2.000% - 3.800%
September, 2009	4,855,000	2,505,000	1.500% - 3.000%
September, 2010A	12,780,000	10,980,000	0.250% - 2.500%
September, 2010B	720,000	580,000	0.700% - 2.500%
September, 2012	1,115,000	1,050,000	1.000% - 1.375%
June, 2014	<u>52,260,000</u>	<u>50,270,000</u>	2.000% - 4.250%
	<u>\$ 75,075,000</u>	<u>\$ 65,890,000</u>	

Call Provision

All bonds may be called prior to maturity at dates and subject to redemption premiums specified in each bond issue.

Schedule of Maturities of Obligations

During the fiscal years ended June 30, 2003, 2005, 2011, and 2014 the Board entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school boards in meeting school construction needs. The table below sets forth the amount to be paid by the Board and Commission for each year until maturity of all related bond issues. The liability for the total bond amount remains with the Board and, as such, the total principal outstanding has been recorded in the financial statements. For the year June 30, 2015, the Commission provided principal and interest payments of \$364,840 and \$158,449, respectively.

Assuming no issues are called prior to schedule maturity, the minimum obligation of the Board including amounts to be paid by the Commission, at June 30, 2015, for debt service (principal and interest) are as follows:

<u>Fiscal Year</u>	<u>McCracken County Board of Education</u>		<u>Kentucky School Facilities Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2015-2016	\$ 3,240,419	\$ 1,957,409	\$ 379,581	\$ 147,949	\$ 5,725,358
2016-2017	3,343,715	1,852,612	281,285	134,654	5,612,266
2017-2018	3,448,998	1,751,530	291,002	124,938	5,616,468
2018-2019	3,536,018	1,661,706	298,982	116,959	5,613,665
2019-2020	3,334,870	1,586,284	305,130	110,810	5,337,094
2021-2025	18,157,877	6,450,364	1,447,123	421,717	26,477,081
2026-2030	21,389,703	3,034,732	1,425,297	185,912	26,035,644
2031-2035	<u>4,769,732</u>	<u>101,357</u>	<u>240,268</u>	<u>5,106</u>	<u>5,116,463</u>
TOTALS	<u>\$ 61,221,332</u>	<u>\$ 18,395,994</u>	<u>\$ 4,668,668</u>	<u>\$1,248,045</u>	<u>\$ 85,534,039</u>

**McCRACKEN COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE F – BOND OBLIGATIONS (continued)

Prior year defeasance of debt

In prior years, the Board has issued revenue refunding bonds by placing the proceeds of the new issue in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Board’s financial statements. As of June 30, 2015, none of these defeased bonds remain outstanding.

NOTE G – CAPITAL LEASE PAYABLE

The Board leases transportation and technology equipment (primarily buses) with a historical cost and accumulated amortization of \$4,717,519 and \$2,467,362, respectively, under capital lease agreements.

Future minimum lease payments at June 30, 2015, are as follows:

<u>Fiscal Year Ending June 30</u>	
2016	\$ 515,843
2017	468,407
2018	360,467
2019	352,415
2020	290,948
2021-2025	<u>693,373</u>
Total minimum lease payments	2,681,453
Less: deferred interest	<u>(246,873)</u>
Present value minimum lease payments	<u>\$ 2,434,580</u>

NOTE H – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
Revenue bonds	\$ 69,405,000	\$ -	\$ (3,515,000)	\$ 65,890,000	\$ 3,620,000
Deferred amounts:					
Premiums	2,085,769	-	(188,886)	1,896,883	183,837
Discounts (restated)	<u>(139,796)</u>	-	<u>28,894</u>	<u>(110,902)</u>	<u>(24,831)</u>
Total bonds payable	71,350,973	-	(3,674,992)	67,675,981	3,779,006
Unfunded pension	10,305,394	-	(1,197,829)	9,107,565	-
KSBIT assessment	112,032	-	(28,008)	84,024	14,004
Capital leases	2,321,056	555,028	(441,504)	2,434,580	452,960
Accumulated sick leave	<u>1,022,975</u>	<u>280,727</u>	<u>(168,568)</u>	<u>1,135,134</u>	<u>335,403</u>
Governmental activity					
Long-term liabilities	<u>\$ 85,112,430</u>	<u>\$ 583,755</u>	<u>\$ (5,510,901)</u>	<u>\$ 80,185,284</u>	<u>\$ 4,581,373</u>

NOTE I – RETIREMENT PLANS

The District’s employees are provided with two pension plans, based on each position’s college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

**McCRACKEN COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE I – RETIREMENT PLANS (continued)

General information about the County Employees Retirement System Non-Hazardous (“CERS”)

Plan description - Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided - CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years’ service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Prior to September 1, 2008
	Unreduced retirement	27 years of service or 65 years old
	Reduced retirement	Minimum 5 years of service and 55 years old Minimum 25 years of service and any age
Tier 2	Participation date	September 1, 2008 to December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 65 years old Age of 57 or older and sum of service years plus age equal 87
	Reduced retirement	Minimum 10 years of service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	Minimum 5 years of service and 65 years old Age of 57 or older and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirements is based on a factor of the number of years’ service and hire date multiplied by the average of the highest five years’ earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years’ service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent’s beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent’s monthly final rate of pay and any dependent child will receive 10% of the decedent’s monthly final rate of pay up to 40% for all dependent children. Five years’ service is required for non-service related disability benefits.

Contributions - Required contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% plus 1% for insurance
Tier 3	5% plus 1% for insurance

The District’s required contribution rate was 17.67% for the year ended June 30, 2015.

**McCRACKEN COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE I – RETIREMENT PLANS (continued)

General information about the Teachers' Retirement System of the State of Kentucky ("KTRS")

Plan description—Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

Benefits provided—For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

- 1) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2) Complete 27 years of Kentucky service.

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions - Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.105% of their salaries to the System. University employees are required to contribute 9.895% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 7.68% of their salary to KTRS.

**McCRACKEN COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE I – RETIREMENT PLANS (continued)

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member’s request.

Medical Insurance Plan

Plan description - In addition to the pension benefits described above, KRS 161.675 requires KTRS to provide post-employment healthcare benefits to eligible employees and dependents. The KTRS Medical Insurance Fund is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy - In order to fund the post-retirement healthcare benefit, six percent (6%) of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent (3%) is paid by member contributions and three quarters percent (.75%) from Commonwealth appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District’s proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

District’s proportionate share of the CERS net pension liability	\$ 11,271,399
Commonwealth’s proportionate share of the KTRS net pension liability associated with the District	<u>179,915,337</u>
Total net pension liability associated with the District	<u>\$ 191,186,736</u>

The net pension liability for each plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District’s proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District’s proportion was 0.347413% percent.

**McCRACKEN COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE I – RETIREMENT PLANS (continued)

For the year ended June 30, 2015, the District recognized pension expense of \$1,281,316 related to CERS and \$8,816,218 related to KTRS. The District also recognized revenue of \$8,816,218 for KTRS support provided by the Commonwealth’s on-behalf payments. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings		
On pension plan investments	-	1,258,161
Changes in proportion and differences between		
District contributions and proportionate share		
Of contributions	-	-
District contributions subsequent to the		
Measurement date	<u>1,436,770</u>	<u>-</u>
Total	<u>\$ 1,436,770</u>	<u>\$ 1,258,161</u>

\$1,436,770 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	
2016	\$ 251,932
2017	251,932
2018	251,932
2019	251,932
2020	251,931

Actuarial assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS	KTRS
Inflation	3.50%	3.50%
Projected salary increases	4.50%	4.0-8.2%
Investment rate of return, net of		
Investment expense & inflation	7.75%	7.50%

For CERS, Mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement. The actuarial assumptions used were based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2008.

For KTRS, Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

**McCRACKEN COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE I – RETIREMENT PLANS (continued)

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. . The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS’s investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30.0%	8.45%
International Equity	22.0%	8.85%
Emerging Market Equity	5.0%	10.50%
Private Equity	7.0%	1.25%
Real Estate	5.0%	7.00%
Core US Fixed Income	10.0%	5.25%
High Yield U.S. Fixed Income	5.0%	7.25%
Non-U.S. Fixed Income	5.0%	5.50%
Commodities	5.0%	7.75%
TIPS	5.0%	5.00%
Cash	1.0%	3.25%
Total	<u>100.0%</u>	

For KTRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS’s investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
Total	<u>100.0%</u>	

**McCRACKEN COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE I – RETIREMENT PLANS (continued)

Discount rate - For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 5.23%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate - The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.75%	7.75%	8.75%
District’s proportionate share of net pension liability	\$ 14,832,409	\$ 11,271,399	\$ 8,125,166
KTRS	4.23%	5.23%	6.23%
District’s proportionate share of net pension liability	\$ -	\$ -	\$ -

Pension plan fiduciary net position - Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

The McCracken County Board of Education makes available 401(k) and 403(b) defined contribution pension plans for all employees. Employees are allowed to contribute to the Plans up to the Internal Revenue Code maximum allowable amount. The McCracken County Board of Education does not contribute to these Plans.

NOTE J – DEFERRED COMPENSATION

The McCracken County Board of Education offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement and who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The McCracken County Board of Education therefore does not show these assets and liabilities on its financial statements.

**McCRACKEN COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE K – CONTINGENCIES

The Board receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For governmental agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantor may request a refund of monies advanced or refuse to reimburse the Board for its disbursements. Management does not expect the amount of such future refunds and un-reimbursed disbursements, if any, to be significant. Continuation of the Board's grant programs is predicated upon the grantor's satisfaction that the funds provided are spent as intended and the grantor's intent to continue their programs.

In addition, the Board receives \$3,480,836 of revenue in lieu of taxes through the State of Kentucky primarily collected from two entities within the county. Due to recent economic change, future collection of this source of revenue may be significantly effected in future periods. Loss of this revenue would significantly impact the Board.

NOTE L – INTEREST EXPENSE

For the year ended June 30, 2015, cash expenditures for interest was \$2,045,688. Expenditures consist of interest expenditures on capital leases of \$65,400 and interest expenditures on bond issues of \$1,980,288.

For the year ended June 30, 2015, amortization expense of deferred charge on refunding, bond issue discounts and call premiums reflected as components of interest expense in the statement of net position were \$235,141, \$28,894 and (\$188,886), respectively.

NOTE M – RISK MANAGEMENT

The McCracken County Board of Education is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, fiduciary responsibility, etc. In addition, the Board is exposed to various risks of loss related to torts; errors and omissions; injuries to employees; and natural disasters. Each of these risk areas is currently covered through the purchase of commercial insurance. In the early 2000's the Board utilized Kentucky School Boards Insurance Trust (KSBIT), a public entity risk pool to cover such risks. A provision of that coverage allowed KSBIT subsequently to seek reimbursement from current and former insured's in the event KSBIT reserves for claims were determined to be inadequate. During the fiscal year ending June 30, 2014, the Board received notification from KSBIT of underfunded risk pools and KSBIT's proposed plan to the Kentucky Department of Insurance for assessment of current and former member participants. Under the proposed plan, the Board portion of the assessment was estimated at \$112,032. As of June 30, 2015, the outstanding liability reported in the government-wide statements is \$84,024.

NOTE N - LITIGATION

The Board is subject to various legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress.

NOTE O – ON-BEHALF PAYMENTS

Payments are made by the Kentucky Department of Education for the benefits of the Board's students and employees. On-behalf payments consist of employee fringe benefits for health insurance and flex spending accounts of \$5,786,483, KTRS retirement contributions of \$4,239,759, technology support of \$93,279 and donated commodities of \$231,555. These non-monetary amounts are reflected within the general fund, special fund, and the business-type activities in the statements as on-behalf payment state revenues and instructional/support expenses. In accordance with Kentucky Department of Education guidelines, these revenues and expenditures are not budgeted by the Board.

For the government-wide financial statements, the District reflects additional on-behalf KTRS retirement contributions of \$4,576,459 related to the KTRS plan actuarial pension expense.

**McCRACKEN COUNTY BOARD OF EDUCATION
NOTES TO FINANCIAL STATEMENTS**

NOTE O – ON-BEHALF PAYMENTS (Continued)

Debt service payments are made by the Kentucky School Facility Construction Commission for school construction related bond issues for part of the Board’s bond principal and interest debt service. Non-monetary principal and interest payments of \$523,289 are reflected within the debt service fund as on-behalf payment state revenues and debt service expenses. These revenues and expenditures are not budgeted by the Board.

NOTE P – TRANSFER OF FUNDS

The following inter-fund transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	General	Special Revenue	KETS Project	\$ 148,409
Operating	General	Debt Service	Debt Service	\$ 267,475
Operating	Special Revenue	General	CEIS Payroll	\$ 165,931
Operating	Food Service	General	Indirect Cost Allocation	\$ 5,696
Operating	Capital Outlay	Construction	New construction	\$ 2,432,329
Operating	Building	Construction	New construction	\$ 50,076
Operating	Building	Debt Service	Debt Service	\$ 4,928,372

NOTE Q – RESTATEMENT OF NET POSITION FOR NEW PRONOUNCEMENT

Effective July 1, 2014, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 68, “Accounting and Financial Reporting for Pensions” (GASB 68). GASB 68 replaced the requirements of GASB 27, “Accounting for Pensions by State and Local Governmental Employers” and GASB 50, “Pension Disclosures”, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

GASB 68 required retrospective application. Since the District only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. The adjustment resulted in a \$11,248,241 reduction in beginning net position on the Statement of Activities and an increase of \$1,505,575 of deferred outflows of resources - District contributions subsequent to the measurement date. Beginning net position restatement by type is as follows:

	<u>Governmental Type Activities</u>	<u>Business Type Activities</u>	
		<u>Food Service</u>	<u>Day Care</u>
Net position – as previously stated	\$ 59,038,600	\$ 730,529	\$ 408,954
GASB 68 implementation	<u>(9,088,852)</u>	<u>(1,777,950)</u>	<u>(381,439)</u>
Net position – as restated	<u>\$ 49,949,748</u>	<u>\$ (1,047,421)</u>	<u>\$ 27,515</u>

REQUIRED SUPPLEMENTAL INFORMATION

MCCRACKEN COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET TO ACTUAL
GENERAL FUND
For the Year Ended June 30, 2015

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
From local sources				
Property taxes	\$ 12,798,260	\$ 12,798,260	\$ 13,291,246	\$ 492,986
Motor vehicle taxes	1,784,134	1,784,134	1,781,059	(3,075)
Utility taxes	3,086,897	3,086,897	3,150,262	63,365
Other taxes	310,378	310,378	406,243	95,865
Tuition and fees	95,235	93,235	109,430	16,195
Earnings on investments	80,398	80,398	92,651	12,253
Other local revenues	200,885	365,923	150,231	(215,692)
State sources				
SEEK	20,455,886	19,330,091	19,589,632	259,541
On-behalf payments	-	-	9,628,116	9,628,116
Other	70,000	70,000	-	(70,000)
Federal - indirect	213,348	213,348	270,079	56,731
Revenue in lieu of taxes	1,804,470	1,804,470	3,480,836	1,676,366
Other revenues	156,092	229,092	190,906	(38,186)
Total revenues	<u>41,055,983</u>	<u>40,166,226</u>	<u>52,140,691</u>	<u>11,974,465</u>
Expenditures				
Instruction	26,178,248	26,219,345	32,109,643	(5,890,298)
Support services				
Student	1,727,028	1,728,022	2,124,679	(396,657)
Instruction staff	1,178,211	1,181,334	1,482,655	(301,321)
District administration	4,677,691	7,926,032	2,010,467	5,915,565
School administration	2,287,450	2,275,193	2,857,005	(581,812)
Business and central office	2,077,326	2,150,551	1,797,060	353,491
Plant operation and maintenance	5,556,673	5,556,673	6,454,123	(897,450)
Student transportation	2,506,064	2,506,064	3,479,728	(973,664)
Contingency	5,431,597	5,431,597	-	5,431,597
Debt service	506,904	506,904	506,904	-
Total expenditures	<u>52,127,192</u>	<u>55,481,715</u>	<u>52,822,264</u>	<u>2,659,451</u>
Excess (deficit) of revenues over expenditures	<u>(11,071,209)</u>	<u>(15,315,489)</u>	<u>(681,573)</u>	<u>14,633,916</u>
Other Financing Sources (Uses)				
Proceeds from debt issues	-	-	555,028	555,028
Operating transfers in	70,000	70,000	171,626	101,626
Operating transfers out	(267,475)	(267,475)	(415,884)	(148,409)
Total other financing sources (uses)	<u>(197,475)</u>	<u>(197,475)</u>	<u>310,770</u>	<u>508,245</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(11,268,684)</u>	<u>(15,512,964)</u>	<u>(370,803)</u>	<u>15,142,161</u>
Net change in fund balances	(11,268,684)	(15,512,964)	(370,803)	15,142,161
Fund balance, July 1, 2014	15,512,964	15,512,964	15,512,964	-
Fund balance, June 30, 2015	<u>\$ 4,244,280</u>	<u>\$ -</u>	<u>\$ 15,142,161</u>	<u>\$ 15,142,161</u>

See Accompanying Independent Auditor's Report.

MCCRACKEN COUNTY BOARD OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET TO ACTUAL
SPECIAL REVENUE FUND
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance
	Original	Final		with Final Budget Favorable (Unfavorable)
Revenues				
From local sources				
Earnings on investments	\$ -	\$ 170	\$ 693	\$ 523
Other local revenues	1,000	48,205	181,499	133,294
State sources				
SEEK	-	-	-	-
On-behalf payments	-	-	-	-
Other	1,536,972	2,111,475	1,701,309	(410,166)
Federal - indirect	3,211,939	4,059,931	4,022,833	(37,098)
Revenue in lieu of taxes	-	-	-	-
Other revenues	-	-	-	-
Total revenues	<u>4,749,911</u>	<u>6,219,781</u>	<u>5,906,334</u>	<u>(313,447)</u>
Expenditures				
Instruction	4,071,365	5,580,295	5,109,801	470,494
Support services				
Student	13,000	14,000	12,701	1,299
Instruction staff	234,734	269,421	259,091	10,330
Business and central office	-	-	33,071	(33,071)
Plant operation and maintenance	-	42,089	50,197	(8,108)
Student transportation	-	-	-	-
Facilities acquisition and construction	-	1,300	1,100	200
Community service activities	430,812	436,154	422,851	13,303
Total expenditures	<u>4,749,911</u>	<u>6,343,259</u>	<u>5,888,812</u>	<u>454,447</u>
Excess (deficit) of revenues over expenditures	<u>-</u>	<u>(123,478)</u>	<u>17,522</u>	<u>141,000</u>
Other Financing Sources (Uses)				
Operating transfers in	-	123,478	148,409	24,931
Operating transfers out	-	-	(165,931)	(165,931)
Total other financing sources (uses)	<u>-</u>	<u>123,478</u>	<u>(17,522)</u>	<u>(141,000)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, July 1, 2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Accompanying Independent Auditor's Report.

**MCCRACKEN COUNTY BOARD OF EDUCATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 KENTUCKY TEACHERS' RETIREMENT SYSTEM
 LAST 10 FISCAL YEARS***

Year Ended June 30	District's Proportion of the net pension liability	District's proportionate share of the net pension liability (asset)	State's proportionate share of the net pension liability (asset) associated with the District	Total	District's covered employee payroll	District's share of the net pension liability (asset) as a percentage of its covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2015	0.0000%	\$ -	\$ 179,915,337	\$ 179,915,337	\$ 27,437,530	0.0000%	45.5907%

* The amounts presented were determined as of the measurement date June 30 of the prior year.

The schedule is intended to eventually show information for 10 years. Additional years will be displayed as they become available.

**MCCRACKEN COUNTY BOARD OF EDUCATION
SCHEDULE OF DISTRICT'S CONTRIBUTIONS
KENTUCKY TEACHERS' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS***

Year Ended June 30	Contractually required contribution	Contributions relative to contractually required contribution	Contribution deficiency (excess)	District's covered employee payroll	Contributions as a percentage of covered employee payroll
2015	\$ 7,209,270	\$ 4,239,759	\$2,969,511	\$ 27,437,530	15.4524%

* The amounts presented were determined as of the measurement date June 30 of the prior year.

The schedule is intended to eventually show information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2015**

Changes of Benefit Terms:

None

Changes of assumptions:

None

**MCCRACKEN COUNTY BOARD OF EDUCATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS***

Year Ended June 30	District's Proportion of the net pension liability	District's proportionate share of the net pension liability (asset)	District's covered employee payroll	District's share of the net pension liability (asset) as a percentage of its covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2015	0.3474%	\$ 11,271,399	\$ 8,059,434	139.8535%	66.8010%
2014	0.3474%	\$ 12,753,816	\$ 7,828,032	162.9249%	61.2209%

* The amounts presented were determined as of the measurement date June 30 of the prior year.

The schedule is intended to eventually show information for 10 years. Additional years will be displayed as they become available.

**MCCRACKEN COUNTY BOARD OF EDUCATION
SCHEDULE OF DISTRICT'S CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS***

Year Ended June 30	Contractually required contribution	Contributions relative to contractually required contribution	Contribution deficiency (excess)	District's covered employee payroll	Contributions as a percentage of covered employee payroll
2015	\$ 1,522,361	\$ 1,522,361	\$ -	\$ 8,059,434	18.8892%
2014	\$ 1,530,382	\$ 1,530,382	\$ -	\$ 7,828,032	19.5500%

* The amounts presented were determined as of the measurement date June 30 of the prior year.

The schedule is intended to eventually show information for 10 years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2015**

Changes of Benefit Terms:

A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

Changes of assumptions:

The assumptions were updated as of result of an experience study for the three year period ending June 30, 2008.

The amortization period of the unfunded accrued liability was reset to a closed 30 year period for the year ended June 30, 2013.

OTHER SUPPLEMENTAL INFORMATION

**MCCRACKEN COUNTY BOARD OF EDUCATION
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 As of June 30, 2015**

	Debt Service Fund	Total Nonmajor Govt. Funds
ASSETS		
Cash and cash equivalents	\$ -	\$ -
Accounts receivable	-	-
Due from general fund	-	-
Total assets	-	-
 LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	-	-
Total liabilities	-	-
 Fund Balances		
Reserved:		
SFCC Debt Service	-	-
Capital Projects	-	-
Unreserved:	-	-
Total fund balances	-	-
Total liabilities and fund balances	\$ -	\$ -

See Accompanying Independent Auditor's Report.

MCCRACKEN COUNTY BOARD OF EDUCATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	Debt Service Fund	Total Nonmajor Govt. Funds
Revenues		
From local sources		
Property taxes	\$ -	\$ -
State sources		
On-behalf payments	523,289	523,289
Total revenues	523,289	523,289
Expenditures		
Debt service	5,719,137	5,719,137
Total expenditures	5,719,137	5,719,137
Excess (deficit) of revenues over expenditures	(5,195,848)	(5,195,848)
Other Financing Sources (Uses)		
Operating transfers in	5,195,848	5,195,848
Operating transfers out	-	-
Total other financing sources (uses)	5,195,848	5,195,848
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	-
Net change in fund balances	-	-
Fund balance, July 1, 2014	-	-
Fund balance, June 30, 2015	\$ -	\$ -

See Accompanying Independent Auditor's Report.

**MCCRACKEN COUNTY BOARD OF EDUCATION
SCHOOL ACTIVITY FUNDS**

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND AMOUNTS DUE TO STUDENT GROUPS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

	Cash Balances 7/1/2014	Receipts	Disburse- ments	(Interfund Transfers)		Cash Balances 6/30/2015	Accounts Receivable 6/30/2015	Accounts Payable 6/30/2015	Amounts Due to Student Groups 6/30/2015
				To	From				
High Schools									
McCracken County	\$489,556	\$ 997,247	\$ 1,011,090	\$ 138,510	\$(138,510)	\$ 475,713	\$ 8,197	\$ 17,434	\$ 466,476
Middle Schools									
Heath	45,572	258,155	184,014	17,800	(17,800)	119,713	-	650	119,063
Lone Oak	42,034	154,044	158,444	2,636	(2,636)	37,634	-	9,276	28,358
Reidland	30,293	116,050	125,714	107	(107)	20,629	264	3,456	17,437
Intermediate Schools									
Lone Oak	21,076	81,754	71,320	30,155	(30,155)	31,510	49	1,647	29,912
Elementary Schools									
Concord	5,447	47,984	42,140	2,024	(2,024)	11,291	-	370	10,921
Farley	36,178	44,455	55,936	982	(982)	24,697	-	110	24,587
Heath	14,173	23,705	29,342	-	-	8,536	-	1,834	6,702
Hendron Lone Oak	36,586	63,691	62,659	4,887	(4,887)	37,618	89	626	37,081
Lone Oak Elementary	39,946	70,819	71,094	68	(68)	39,671	-	-	39,671
Reidland	39,109	20,695	42,291	5	(5)	17,513	-	-	17,513
Totals	<u>\$799,970</u>	<u>\$ 1,878,599</u>	<u>\$ 1,854,044</u>	<u>\$ 197,174</u>	<u>\$(197,174)</u>	<u>\$ 824,525</u>	<u>\$ 8,599</u>	<u>\$ 35,403</u>	<u>\$ 797,721</u>

See independent auditor's report on supplementary financial information

**MCCRACKEN COUNTY BOARD OF EDUCATION
MCCRACKEN COUNTY HIGH SCHOOL ACTIVITY FUNDS**

SCHEDULE OF RECEIPTS, DISBURSEMENTS AND AMOUNTS DUE TO STUDENT GROUPS

YEAR ENDED JUNE 30, 2015

	Cash		Disbursements	(Interfund Transfers)		Cash	Accounts	Accounts	Amounts Due to Student Groups
	Balances 7/1/2014	Receipts		To	From	Balances 6/30/2015	Receivable 6/30/2015	Payable 6/30/2015	
AP / PSAT Exams	\$ 1,049	\$ 53,623	\$ 49,679	\$ -	\$ -	\$ 4,993	\$ -	\$ -	\$ 4,993
Academic	-	150	2,502	2,519	-	167	-	-	167
Art Club	12,111	7,600	6,001	-	(100)	13,610	-	-	13,610
Athletics	201,068	254,601	218,557	33,366	(93,429)	177,049	7,975	1,055	183,969
Post Season Play	1,226	9,134	4,045	-	(6,315)	-	-	-	-
Band	546	6,535	6,259	-	-	822	-	-	822
Band - Boosters	65	-	-	-	-	65	-	-	65
Baseball	-	11,837	22,296	10,459	-	-	-	-	-
Basketball - Boys	732	23,411	12,227	8,000	(17,300)	2,616	-	-	2,616
Basketball - Girls	893	2,972	4,598	8,000	(719)	6,548	-	-	6,548
Basketball - Boosters	1,060	-	-	-	-	1,060	-	-	1,060
Bass Fishing	-	4,500	650	-	-	3,850	-	-	3,850
Beta Club	4,168	2,240	189	-	-	6,219	-	-	6,219
Biology	4,355	1,204	560	-	-	4,999	-	-	4,999
Bowling	-	505	1,066	561	-	-	-	-	-
Cheerleader	1	22,763	11,757	499	(40)	11,466	-	9,666	1,800
Cheerleading-COED	5,280	88,085	84,558	312	(240)	8,879	-	6,713	2,166
Choir	5,561	2,617	7,619	-	(145)	414	-	-	414
Class of 2014	-	-	40	40	-	-	-	-	-
Classroom - Lab/Fee	25,005	32,204	25,506	-	-	31,703	-	-	31,703
Color Guard	-	1,448	1,603	155	-	-	-	-	-
Comic-Con	-	550	461	-	-	89	-	-	89
Cross Country	415	1,556	4,508	2,537	-	-	-	-	-
Daily Living Skills	2,920	3,332	4,043	-	-	2,209	-	-	2,209
Dance Team	-	4,173	3,823	46	(396)	-	-	-	-
District Tournament	2,366	1,101	1,220	-	(2,247)	-	-	-	-
Drama	9,550	40,415	34,053	-	-	15,912	-	-	15,912
Environmental Club	3,049	4,434	4,620	-	-	2,863	-	-	2,863
FACS	6,646	7,318	7,929	325	-	6,360	-	-	6,360
Faculty Fund	7,898	1,308	8,291	-	-	915	-	-	915
FBLA	906	4,942	4,421	-	-	1,427	-	-	1,427
FCCLA	5,168	4,351	5,494	-	-	4,025	-	-	4,025
FCA	197	558	590	-	-	165	-	-	165
Mustang Madness - 2015	1,596	4,500	6,096	-	-	-	-	-	-
FFA	15,592	68,442	77,074	100	-	7,060	-	-	7,060
Field Trips	-	13,664	11,437	-	-	2,227	-	-	2,227
Football	-	44,723	62,694	17,971	-	-	-	-	-
Football-Boosters	1,543	3,457	5,000	-	-	-	-	-	-
Future Educators	84	3,744	503	-	-	3,325	-	-	3,325
General Fund	56,935	23,642	21,772	-	(4,657)	54,148	-	-	54,148
Golf	-	1,463	9,984	8,709	-	188	-	-	188
Golf-Boosters	2,057	-	-	-	-	2,057	-	-	2,057
HOSA Club	2	8,986	6,643	-	-	2,345	-	-	2,345
Intermural Sports	293	-	227	-	-	66	-	-	66
Library	883	539	1,186	280	(100)	416	-	-	416
Mechandise	8,018	45,302	41,320	2,005	-	14,005	222	-	14,227
National Honor Society	974	2,020	1,685	-	-	1,309	-	-	1,309
Newspaper	630	1,102	-	-	-	1,732	-	-	1,732
Pep Club	192	5,751	4,358	-	-	1,585	-	-	1,585
Ping Pong Club	62	-	-	-	-	62	-	-	62
Project Graduation	222	33,132	33,270	-	-	84	-	-	84
Prom	5,724	-	-	-	(5,724)	-	-	-	-
Regional Tournament	-	6,811	6,064	63	(720)	90	-	-	90
Robotics Team	91	3,781	3,145	-	-	727	-	-	727
School Dance	-	23,850	11,822	5,723	-	17,751	-	-	17,751
Soccer - Boys	5,072	7,511	12,539	4,617	(4,661)	-	-	-	-
Soccer - Girls	13,450	2,656	8,103	-	(1,717)	6,286	-	-	6,286
Soccer-Boosters	8,652	-	-	-	-	8,652	-	-	8,652
Softball	1,549	8,544	23,070	12,977	-	-	-	-	-
Special Events	10,511	5,850	16,361	-	-	-	-	-	-
Speech	-	550	1,233	683	-	-	-	-	-

See independent auditor's report on supplementary financial information.

Swim Team - 2,687 2,690 - 3 - - 3

**MCCRACKEN COUNTY BOARD OF EDUCATION
MCCRACKEN COUNTY HIGH SCHOOL ACTIVITY FUNDS**

SCHEDULE OF RECEIPTS, DISBURSEMENTS AND AMOUNTS DUE TO STUDENT GROUPS

YEAR ENDED JUNE 30, 2015

	Cash		(Interfund Transfers)		Cash	Accounts	Accounts	Amounts	
	Balances	Receipts	Disburse-	To					From
	7/1/2014		ments			6/30/2015	6/30/2015	6/30/2015	Groups
						6/30/2015	6/30/2015	6/30/2015	6/30/2015
Swim Team - Boosters	2,547	3,265	1,631	-	-	4,181	-	-	4,181
Tennis	-	100	4,260	4,160	-	-	-	-	-
Track	-	5,056	9,727	5,000	-	329	-	-	329
Volleyball	8,156	20,393	25,410	-	-	3,139	-	-	3,139
Volleyball-Boosters	6,845	-	4,811	-	-	2,034	-	-	2,034
World Language Club	1,887	4,010	4,115	-	-	1,782	-	-	1,782
Wrestling	1,588	12,803	20,409	6,018	-	-	-	-	-
Y Club	-	5,425	6,120	695	-	-	-	-	-
Year Book	32,014	24,363	25,423	-	-	30,954	-	-	30,954
Youth Services Center	152	2,345	1,746	-	-	751	-	-	751
Totals	\$ 489,556	\$ 997,247	\$ 1,011,090	\$ 138,510	\$ (138,510)	\$ 475,713	\$ 8,197	\$ 17,434	\$ 466,476

**McCRACKEN COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Federal Expenditures</u>	<u>Totals</u>
US Department of Education				
Passed through State Department of Education:				
Title I, Part A Cluster:				
Title I-Grants to Local Educational Agencies	84.010	3100002 12	\$ 21,058	
	84.010	3100002 13	246,796	
	84.010	3100002 14	<u>1,390,749</u>	
Total Title I, Part A Cluster				\$ 1,658,603
Special Education Cluster (IDEA):				
Special Education-Grant to States				
	84.027	3810002 11	7,225	
	84.027	3810002 12	2,886	
	84.027	3810002 13	452,847	
	84.027	3810002 14	<u>1,230,842</u>	1,693,800
Special Education-Preschool Grants	84.173	3800002 11	8,948	
	84.173	3800002 12	<u>50,603</u>	<u>59,551</u>
Total Special Education Cluster				1,753,351
Twenty-First Century Community Learning Centers				
	84.287	3400002 11	300	
	84.287	3400002 12	67,743	
	84.287	3400002 13	<u>197,121</u>	265,164
Rehabilitation Services-Vocational Rehabilitation Grants to States				
	84.126	3713	41	
	84.126	371A	<u>68,548</u>	68,589
Improving Teacher Quality State Grants				
	84.367	3230002 12	9,535	
	84.367	3230002 13	138,935	
	84.367	3230002 14	<u>5,687</u>	154,157
State Fiscal Stabilization Fund (SFSF)				
Race-to-the-Top Incentive Grants, Recovery Act				
	84.395	4521	<u>45,404</u>	45,404
Passed through Workforce Development Cabinet:				
Career and Technology Education-Basic Grants to States				
	84.048	3710002 13	19,939	
	84.048	3710002 14	<u>56,620</u>	76,559
Passed through Paducah, KY Board of Education:				
English Language Acquisition Grants				
	84.365	3453	500	
	84.365	3454	237	
	84.365	345A	<u>269</u>	<u>1,006</u>
Total U.S Department of Education				<u>4,022,833</u>

**McCRACKEN COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Federal Expenditures</u>	<u>Totals</u>
US Department of Agriculture				
Passed through State Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	7760005 14	116,770	
	10.553	7760005 15	<u>429,896</u>	546,666
National School Lunch Program	10.555	7750002 13	346,580	
	10.555	7750002 14	1,211,596	
Passed through State Department of Agriculture				
National School Lunch Program:				
Non-monetary Food Distribution (Note B)	10.555	2014	<u>231,555</u>	<u>1,789,731</u>
Total Child Nutrition Cluster				
Passed through State Department of Agriculture				
Summer Food Service Program for Children				
	10.559	7740023 14	13,088	
	10.559	7740023 15	<u>21,542</u>	<u>34,630</u>
				2,371,027
Passed through State Department of Education:				
Fresh Fruit and Vegetable Program				
	10.582	7720012 14	4,359	
	10.582	7720012 15	<u>22,092</u>	<u>26,451</u>
Total US Department of Agriculture				<u><u>2,397,478</u></u>
US Department of Health and Human Services				
Passed through Murray, KY Board of Education:				
Head Start	93.600	6654	<u>159,695</u>	<u>159,695</u>
Total Federal Awards				<u><u>\$ 6,580,006</u></u>

**McCRACKEN COUNTY BOARD OF EDUCATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARD
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of McCracken County Board of Education and is presented on the accrual method of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – COMMODITIES

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and used.

NOTE C – RECONCILIATION OF FEDERAL AWARDS TO THE FINANCIAL STATEMENTS

Total Federal Awards	<u>\$ 6,580,006</u>
Federal Awards by Fund	
General Fund	\$ 159,695
Special Revenue Fund	4,022,833
Proprietary Fund	<u>2,397,478</u>
Total Federal Awards	<u>\$ 6,580,006</u>

Federal revenues of \$110,384 were reflected in the general fund for reimbursements for Medicaid claims and accordingly, were not included in the Schedule of Expenditures of Federal Awards.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for School
District Audits
Members of the Board of Education
McCracken County Board of Education
Paducah, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District audits in *Kentucky Public School Districts' Audit Contract and Requirements*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the McCracken County Board of Education as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the McCracken County Board of Education's basic financial statements and have issued our report thereon dated November 11, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered McCracken County Board of Education's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of McCracken County Board of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of McCracken County Board of Education's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

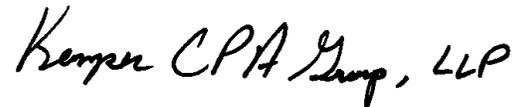
As part of obtaining reasonable assurance about whether McCracken County Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulation identified in *Kentucky Public School Districts' Audit Contract and Requirements*.

We noted certain other matters that we reported to management of the McCracken County Board of Education in a separate letter dated November 11, 2015.

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants and Consultants
Paducah, Kentucky
November 11, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Kentucky State Committee for School
District Audits
Members of the Board of Education
McCracken County Board of Education
Paducah, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the McCracken County Board of Education's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the McCracken County Board of Education's major federal programs for the year ended June 30, 2015. McCracken County Board of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the McCracken County Board of Education's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District audits in *Kentucky Public School Districts' Audit Contract and Requirements*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the McCracken County Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of McCracken County Board of Education's compliance.

Opinion on Each Major Federal Program

In our opinion, the McCracken County Board of Education, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the McCracken County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the McCracken County Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the McCracken County Board of Education's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Kemper CPA Group, LLP

Certified Public Accountants and Consultants
Paducah, Kentucky
November 11, 2015

**McCRACKEN COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015**

Section I – Summary of Auditor’s Results

1. The independent auditor’s report expresses an unmodified opinion on the financial statements of the McCracken County Board of Education.
2. No significant deficiencies relating to the audit of the financial statements are reported.
3. No instances of noncompliance material to the financial statements of the McCracken County Board of Education were disclosed during the audit.
4. No significant deficiencies relating to the audit of major federal award programs are reported.
5. The auditor’s report on compliance for the major federal award programs for the McCracken County Board of Education expresses an unmodified opinion.
6. There are no findings to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs included:

<u>Name</u>	<u>CFDA</u>
Clustered:	
School Breakfast Program	10,553
National School Lunch Program	10,555
Summer Food Service Program for Children	10.559

8. The threshold used for distinguishing Types A and B programs was \$300,000.
9. The McCracken County Board of Education did qualify to be audited as a low-risk auditee.

Section II – Findings – Financial Statements Audit

There are no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

Section III – Findings and Questioned Costs – Major Federal Awards Programs

There are no findings or questioned costs related to the major federal programs which are required to be reported in accordance with *OMB Circular A-133, Section 510(a)*.

**McCRACKEN COUNTY BOARD OF EDUCATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2015**

Section II – Findings – Financial Statements Audit

There were no prior year findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

Section III – Findings and Questioned Costs – Major Federal Awards Programs

There were no prior year findings or questioned costs related to the major federal programs which are required to be reported in accordance with *OMB Circular A-133, Section 510(a)*.